

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

INDEPENDENT AUDITOR'S REPORT

FINANCIAL STATEMENTS AND

SUPPLEMENTAL INFORMATION

SCHEDULE OF FINDINGS

DECEMBER 31, 2011

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OSAGE MUNICIPAL UTILITIES

OFFICIALS

December 31, 2011

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Royce Tack	Chairman	December 2015
Kelvin Palsic	Trustee	December 2012
Harlan Bremer	Trustee	December 2015
Tom Kenny	Trustee	December 2016
Frank Arciniega	Trustee	December 2014
Dennis Fannin	General Manager	Indefinite
Mike Banta	Board Secretary	Indefinite
Jane Michels	Cashier	Indefinite
Beverly Schuler	Treasurer	January 2012

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Osage Municipal Utilities
Osage, Iowa

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Osage Municipal Utilities, (a component unit of the City of Osage) as of and for the years ended December 31, 2011 and 2010 which collectively comprise the Utilities' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Osage Municipal Utilities' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with the U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund and the aggregate remaining fund information of Osage Municipal Utilities as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated July 12, 2012, on our consideration of Osage Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 4 through 15 and 37 through 39 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Osage Municipal Utilities' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended December 31, 2010, and expressed unqualified opinions on those financial statements. Other supplementary information included in schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the aforementioned financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.



Lou Ann Murphy & Company P.L.L.C.

Certified Public Accountant

Osage, Iowa

July 12, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Osage Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2011. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- The Utilities' operating revenue increased 1.3%, or approximately \$122,000 from 2010 to 2011.
- Operating expenses increased 3.0%, or approximately \$253,000, from 2010 to 2011.
- The Utilities' net assets increased 4.9%, or approximately \$764,000, during 2011.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utilities' financial activities.

Fund financial statements report the Utilities' operations by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' budget and a funding schedule for the Retiree Health Plan.

The Other Supplementary Information in schedules 1 through 5 provides detailed information about non-major enterprise funds and additional detail with respect to the Utilities' revenues and expenses.

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

Fund Financial Statements

Osage Municipal Utilities utilizes one kind of fund;

Proprietary funds account for the Utilities' enterprise activities. Enterprise funds are used to report business type activities. Osage Municipal Utilities maintains six Enterprise Funds to provide separate information for the light and power, gas, internet, telephony, cable, and wireless funds.

The condensed statement of net assets, shown below, shows how assets and liabilities have changed over the past two years. In 2011 capital assets increased by approximately .1% and represent 63.5% of total assets. Total assets decreased by approximately \$26,000 and liabilities decreased by approximately \$790,000 resulting in the increase in net assets of approximately \$764,000 during the year.

Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2011	2010
Current and other assets	\$ 8,608	\$ 8,645
Capital assets (net of accumulated depreciation)	14,976	14,965
Total assets	23,584	23,610
Long-term debt outstanding	6,119	6,787
Other Liabilities	1,157	1,279
Total liabilities	7,276	8,066
Net assets		
Invested in capital assets (net of related debt)	8,857	8,179
Restricted - bond covenant	761	836
Unrestricted	6,690	6,529
Total net assets	\$ 16,308	\$ 15,544

INDIVIDUAL MAJOR FUND ANALYSIS

As Osage Municipal Utilities completed the year, its enterprise funds reported a combined fund balance of \$16.3 million, an increase of more than \$.8 million over last year's total of \$15.5 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

Electric Utility Results of Operations

Light and Power operating revenues increased \$226,000 or 4.1% from the prior year due primarily to the combined impact of an approximate 776,000 kilowatt hour increase in power usage by consumers and a modest pass through of increased wholesale power costs.

Total operating expenses for 2011 were higher by approximately \$105,000, or 2.1% more than in 2010. Most of the increase can be attributed to the power costs of the same 776,000 kilowatt hour

increase in consumer power usage. The combined effect of these two factors resulted in 2011 operating income of \$741,000. This was a 19.5% increase compared to the 2010 operating income of \$620,000. The combination of all factors resulted in the Electric Utility achieving an increase in Net Assets of more than \$598,000 in 2011, compared to an increase of \$522,000 in 2010.

The cash balance for 2011 decreased by approximately \$127,000, or 5% under the cash balance in 2010, as a result of slightly higher accounts receivable balances and operating activities.

Gas Utility Results of Operations

The volume of natural gas consumed by Osage residents and businesses increased by approximately 8,000 mcf in 2011, while actual gas revenues dropped over \$91,000, or 4.0%, due primarily to declining natural gas prices. Total operating expenses increased by \$10,000, or .5%, resulting in an increase in operating loss of \$102,000 over the 2010 level.

An uncharacteristically warm December in 2011 resulted in lower gas usage, lower budget billing balances and lower amounts due for purchased gas than during the same month in 2010. Because the assets decreased by less than the associated liabilities, the net assets for 2011 increased by just over \$38,000 compared to 2010.

The cash balance for 2011 decreased by just over \$10,000, or 1% below the cash balance in 2010, as a result of a slight increase in customer accounts receivable.

Of the total volumes of gas delivered to customers during 2011, 25% can be attributed to the Gas Utility's largest customers.

Telecom Utility Results of Operations

The Communications Utility ended the year with a gain in net assets of almost \$127,000. Even with the popularity of cellular phone usage, the struggling economy, and the predatory nature of competitor pricing strategies, the number of telephone, cable television and rural wireless internet customers are stable. In fact, the number of high speed internet customers grew by 7.2% in 2011. In spite of the aforementioned competitive challenges, the Telecom Utility's net assets increased by 8.2%.

An approximate \$93,000 increase in the cash balance for 2011 represented a 6.2% increase over the 2010 cash balance.

Telecom Utility capital assets are diminutive, at 1.9% of total assets, because telephone and cable capital assets are owned by the Electric Utility, leaving less than \$36,000 in capital assets owned by the Internet and Wireless Funds. Consequently, nearly just over 85% of the Telecom Utility's total assets are comprised of cash.

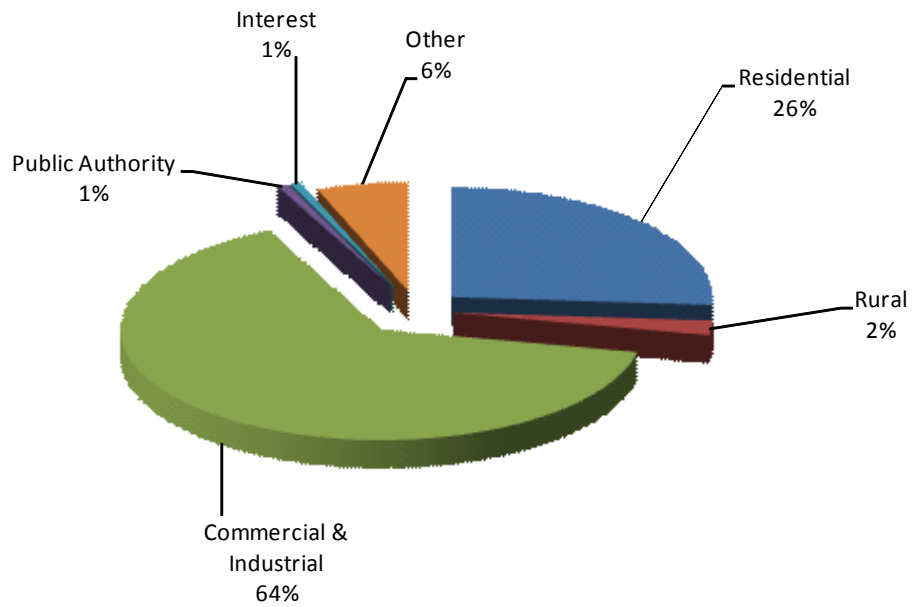
Our presence as a provider of communications services enables all Osage consumers of communications services to continue to benefit from the competitive nature of the Osage marketplace.

Combined Results of Operations

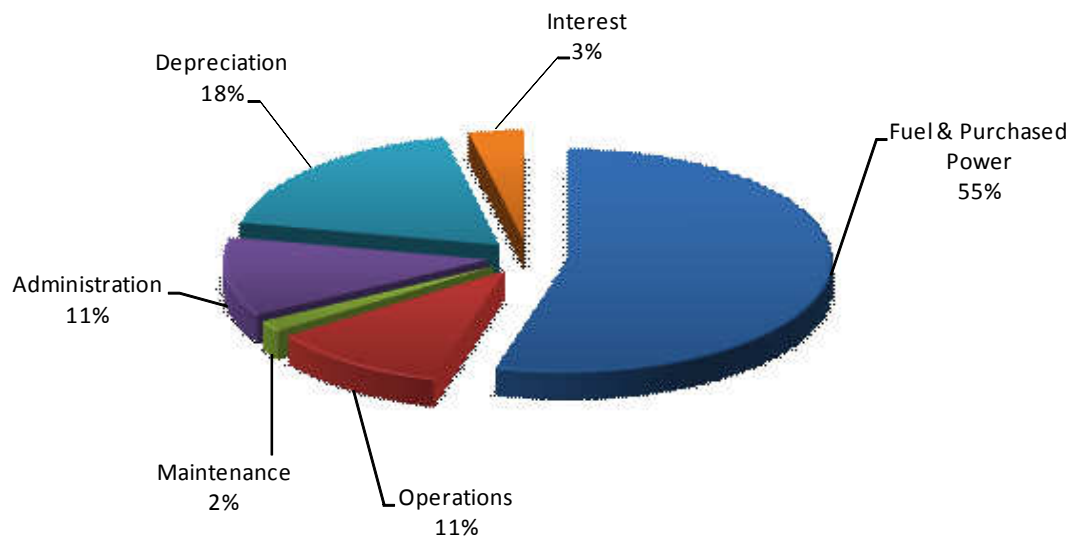
The following analysis focuses on the change in net assets for the combined divisions of Osage Municipal Utilities. The pie charts following the chart below show the source of revenues and expenses by fund for Osage Municipal Utilities.

Changes in Net Assets of Business Type Activities		
(Expressed in Thousands)		
	Year ended December 31,	
	2011	2010
Operating revenues	\$ 9,711	\$ 9,589
Operating Expenses	(8,778)	(8,525)
Operating income	933	1,064
Net non-operating revenues (expenses)	(166)	(193)
Other financing sources (uses)	(3)	418
Change in net assets	764	1,289
Net assets beginning of year	15,544	14,255
Net assets end of year	<u>\$ 16,308</u>	<u>\$ 15,544</u>

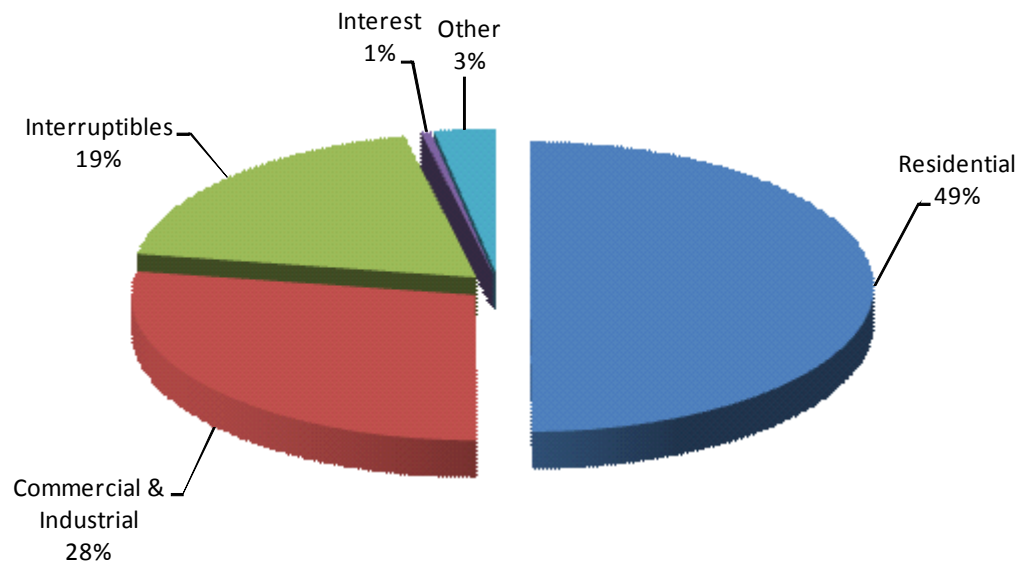
Electric Utility Source of Funds



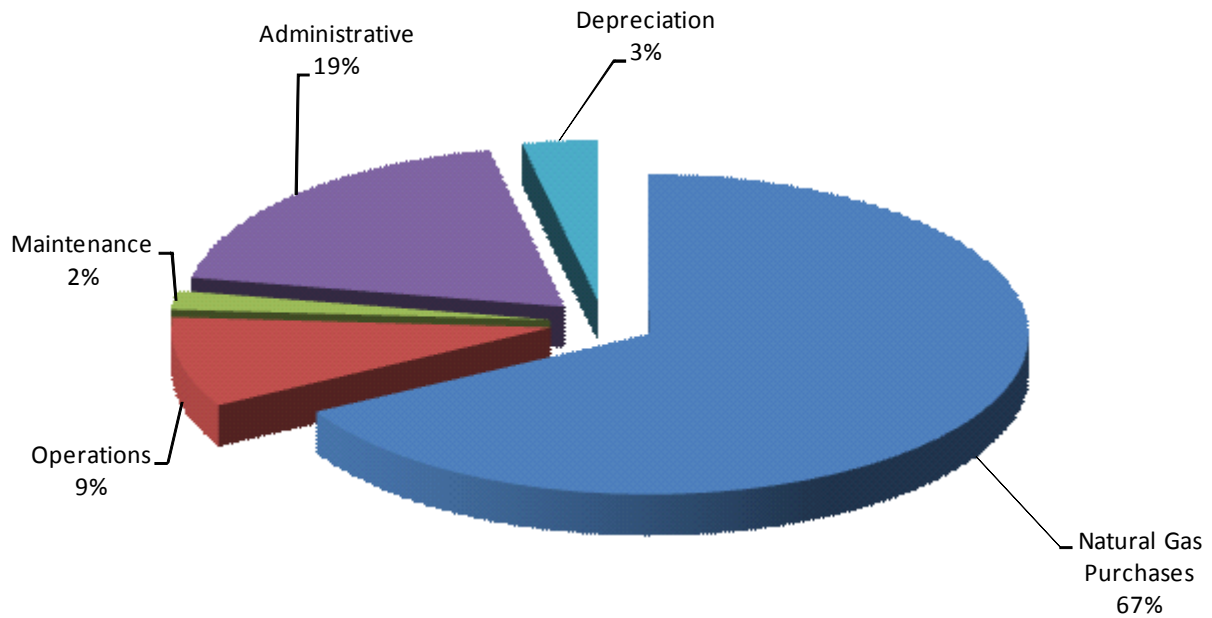
Electric Utility Use of Funds



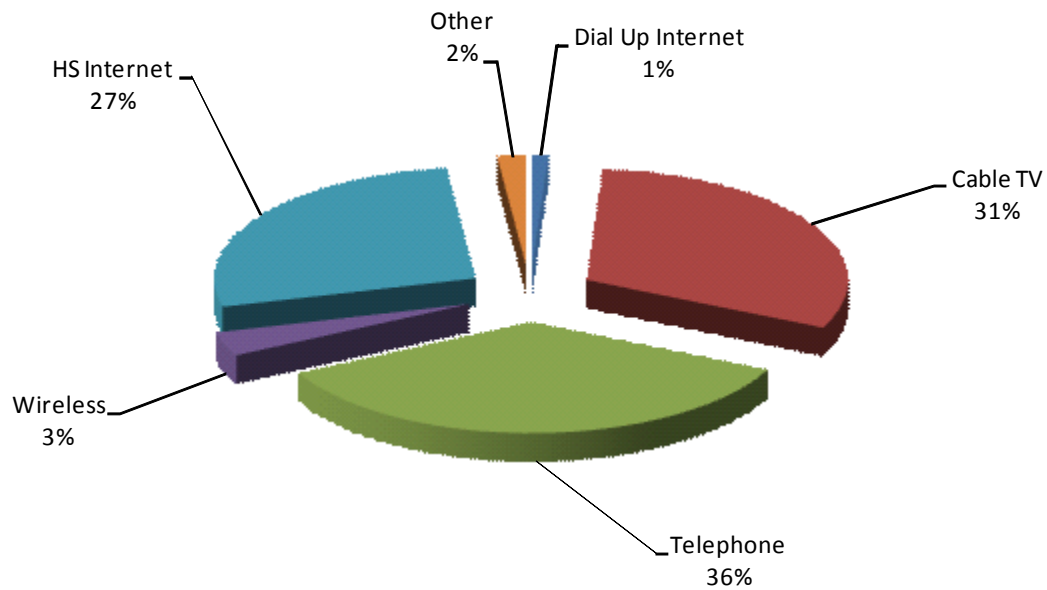
Gas Utility Source of Funds



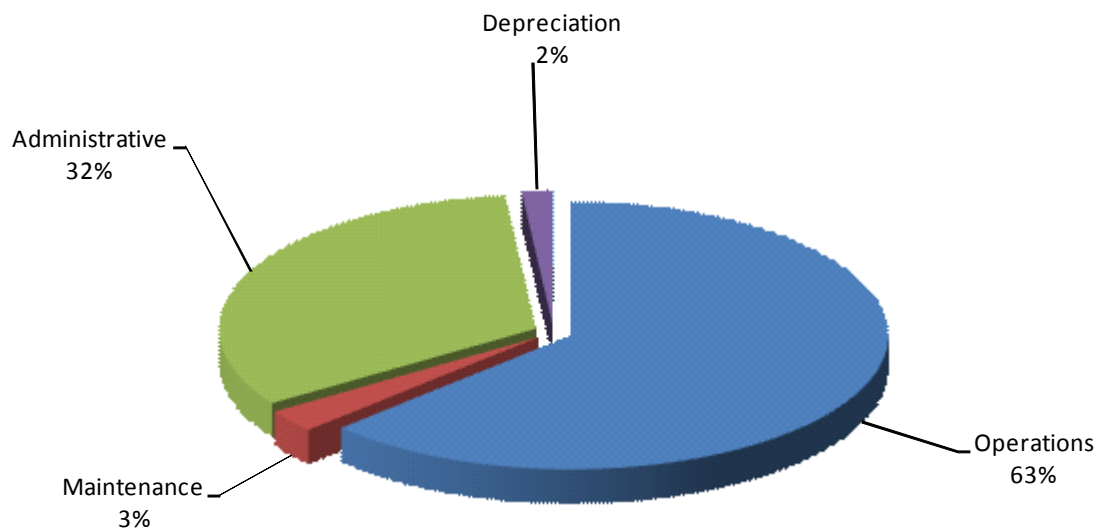
Gas Utility Use of Funds



Communications Utility Source of Funds



Communications Utility Use of Funds



BUDGETARY HIGHLIGHTS

Osage Municipal Utilities did not amend their budget during the year nor did they exceed the budgeted limits for expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2011, Osage Municipal Utilities had approximately \$14.9 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is a net increase in total capital assets (including additions and deletions net of depreciation) of approximately \$10,000, a .1% increase from 2010.

Capital Assets of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2011	2010
Land and improvements	\$ 105	\$ 94
Buildings and improvements	1,725	908
Equipment and Vehicles	13,015	13,833
Construction in progress	-	-
Iowa Stored Energy Project	130	130
Total	\$ 14,975	\$ 14,965

The changes to capital assets can be attributed to replacement of the step-down transformer at the power plant, upgrades in the telecommunications distribution system, facilities improvement, distribution equipment replacement and regular depreciation.

Osage Municipal Utilities had depreciation expense of \$1,070,560 in 2011 and total accumulated depreciation of \$15,116,705 at December 31, 2011.

LONG TERM DEBT/LIABILITIES

At December 31, 2011, Osage Municipal Utilities had \$6,119,000 in revenue bonds outstanding compared to \$6,787,000 at December 31, 2010, as shown below.

Outstanding Debt of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2011	2010
Revenue bonds	\$ 6,119	\$ 6,787
Total	\$ 6,119	\$ 6,787

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Electric Utility

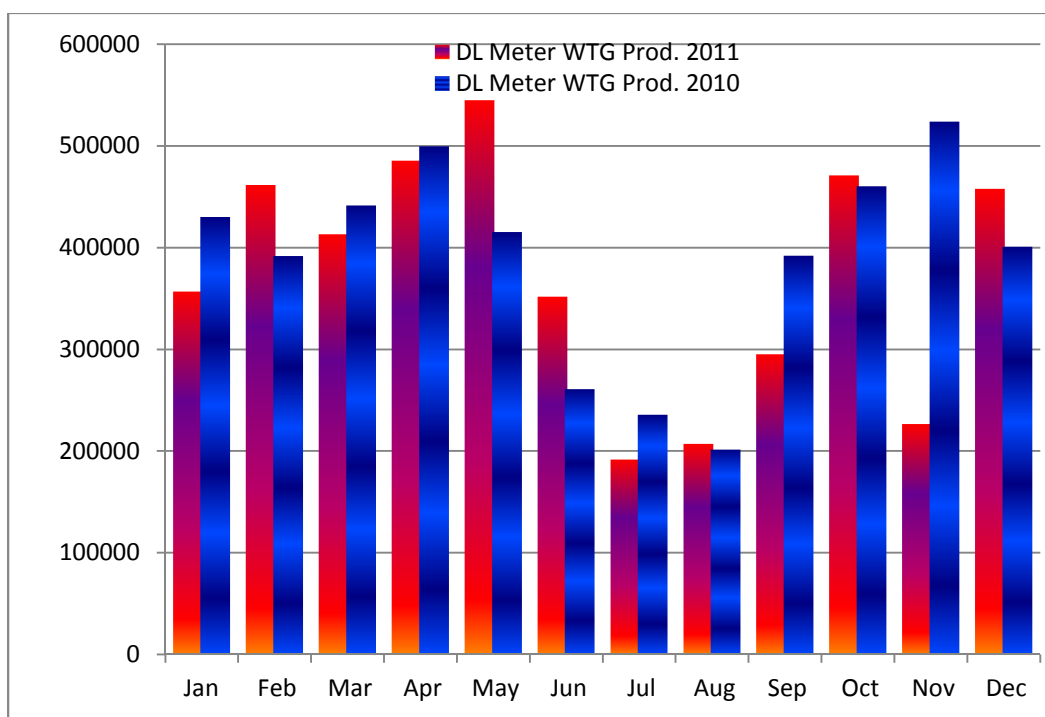
Earlier in 2011 the Department of Energy reported their expectation that electric rates would increase by 50% in the next seven years. Not long after that alarming prediction, Osage's wholesale power provider, Dairyland Power, announced the need for a 22% increase to our wholesale cost of electricity, effective May 1, 2011.

Besides serving Osage, Dairyland provides the wholesale electrical requirements for 15 other municipal utilities in the Upper Midwest. Collectively we are members of the Upper Midwest Municipal Power Agency (UMMPA), a joint action agency formed in 2004 to maximize its members' buying power. UMMPA members, their governing bodies and customers expressed deep concern to Dairyland over the magnitude of the proposed increase.

Clearly, the electric industry continues to change and evolve in ways that materially affect our wholesale agreement with Dairyland. To Dairyland's credit, they recognized this and agreed to re-evaluate the existing rate design and make contract modifications that would provide some relief to UMMPA'S members. Ultimately, by the end of 2011, Dairyland and UMMPA finalized agreement on the terms of a new 20-year wholesale power arrangement, effectively lowering wholesale rates to 2008 levels. The first year of the new contract, 2012, is expected to provide an estimated 20% savings compared to the previous contract rate, as well as affording a better sharing of risks and benefits.

In an effort to secure a more stable and potentially lower cost of electricity in the future, Osage, in conjunction with the other UMMPA members, joined a coalition of other municipal utilities and joint action agencies to engage in long-term power supply planning and explore power supply alternatives. Through the coalition process, UMMPA became aware of several long term wind power purchase agreement opportunities with very favorable pricing. On May 1, 2012 Osage, along with other UMMPA members, entered into a 20-year fixed rate contract for the purchase of clean, renewable wind energy for our customers. Energy received from this contract will supply approximately 24% of Osage's electric needs and will comprise some of our lowest cost energy.

After two years' experience producing electricity with our 1.5 MW wind turbine, we were again pleased that actual production statistics exceeded engineers' projections. The new turbine produced 4,463,404 kwh in 2011, displacing 8.0% of the non-renewable fossil-fueled energy that would otherwise be purchased from our wholesale power provider, Dairyland Power. In spite of two weeks of down time attributed to an arc flash event that occurred in November 2011, the turbine performed at slightly more than a 34% capacity factor, compared to 32% that was projected. The electricity generated by Osage's single wind turbine provided enough clean, renewable energy to power the equivalent of about 500 homes in Osage. Please refer to the accompanying graph for a two-year comparison of monthly energy produced by Osage's wind turbine.



The Osage board of trustees and management believe including wind energy in the mix of generating resources is a proactive measure, or hedge, against the likely costs associated with environmental requirements and legislation, especially those dealing with global climate change and pollution from burning coal.

The strategies that were employed in 2011 and early 2012 to lower Osage's cost of electricity provided the impetus for implementing a new electric rate design beginning June 1, 2012. The new design reflects a move toward achieving a better matching of cost recovery with the cost to serve each customer rate class. The end result of a comprehensive cost of service and rate study indicated that OMU electric customers will, on average, pay about 4.5% less for electricity for the remainder of 2012 compared to the same period in 2011. OMU's largest electric users can expect to save even more; as much as 10%.

In this emerging era of greater social and environmental obligation, the cost of providing electricity will undoubtedly continue to rise. However, after negotiating more favorable terms with our wholesale power provider and contracting for a long term supply of low cost renewable energy, Osage customers should expect relatively stable electric prices now and for the next few years.

The Gas Utility

Fortunately, volatility of the natural gas pricing environment seen in recent years has moderated due to solid year-on-year natural gas production increases. Despite the current lower volatility, OMU continues to believe that natural gas prepayment transactions should be an important component of a gas supply portfolio. Consequently, the OMU board of trustees decided to join with four other municipal utilities who make up the Central Plains Energy Project and participate in a long term natural gas purchase plan. The deal guarantees that Osage will be able to purchase

15-20% of its gas at a guaranteed discount to the market price, saving customers more than \$900,000 over 30 years.

OMU continues to use price hedging throughout the year as a strategy to achieve greater purchasing efficiency and to protect our customers from the potential return of a high and volatile gas-price environment.

Communications

As the news headlines proclaim, “HFC is not dead”! Technical improvements continue to enhance the performance and extend the life of Hybrid Fiber Coax (HFC) systems like in use at Osage Municipal Communications Utilities. CableLabs, a non-profit research and development consortium that is dedicated to pursuing new cable telecommunications technologies, is evaluating a variety of technologies that may be useful to increase capacity and reduce the cost of broadband equipment. Both CISCO and Motorola have started hinting at the next enhancements to DOCSIS 3.x which will focus on expanding the upstream path. DOCSIS 3.0 provides a number of enhancements, most notably, channel bonding, support for IPv6, and support for IPTV. Channel bonding now provides cable operators with a flexible means to significantly increase customers’ speeds up to 250 Mbps downstream and 120 Mbps upstream. DOCSIS 3.x proposes speeds of 1 Gbps.

After implementing DOCSIS 3.0 in the 3rd quarter of 2011, Osage Municipal Communications Utilities is applying proven capabilities by more than doubling its fastest 10Mbps package to 25Mbps download and 10Mbps upload in the 2nd quarter of 2012. These speeds are unheard of in most of rural Iowa. The communications utility will continue implementing DOCSIS 3.x improvements to strengthen its video, voice, and data performance without the multi-million dollar Fiber-to-the-Premise (FTTP) system rebuild expense.

Voice over Internet Protocol (VoIP) services continue to roll out to phone customers now that a full featured in-house provisioning system is in final development and testing. Every business and residence will have new equipment installed and existing wiring inspected and replaced as necessary. Once completed, both Internet and phone service will be IP based providing flexibility for future delivery decisions.

Past initiatives have found their niche within our service offerings. Colocation uses existing resources to generate additional revenue by offering bandwidth, security, conditioned space and electrical backup for local and regional customers’ servers. Business Services fulfills local customers’ requests for professional network design, implementation and management. Dedicated Internet Access hosts customer Ethernet point-to-point fiber connections to our core switch competing with overpriced legacy T1s, DS3s and OC3s. Other telecommunication initiatives being incubated or under consideration include increasing wireless broadband speeds for rural customers, alternative cable TV systems and a third bandwidth capacity supplier.

The National Broadband Plan’s focus on expanding broadband’s influence is welcome while its solution for carrier access issues over the next 5 years is regrettable. We could bemoan mandated reduced phone access revenues over the next 5 years, instead our efforts are focused on DOCSYS 3.x powered broadband, fuller featured and less costly phone service, alternatives to traditional cable TV and business services our community requires to thrive. Eventually competition will win, rewarding those that innovate by offering what the customer wants, delivering on value and backing it all with service.

Energy Efficiency

Osage Municipal Utilities continues to implement effective, customer focused energy efficiency programs in efforts to reduce electric peak demand energy usage. By lower customers' peak demand, the utility delays the need to add expensive generation equipment needed to carry the town load in times of emergency or contractual obligations. Our customers' benefits go beyond stable rates from avoided utility capital expenditures to include energy and demand savings on the customers' side of the meter. This translates to customers saving dollars, saving energy and reducing their impact on the environment.

Natural Gas customers are also seeing the positive effects of conservation incentives. From insulation programs to commercial water heating rebates, Osage Municipal Utilities continues to work towards its energy saving goals. As energy conservation responsibilities are transferred more to our customers, energy efficiency education is still the major component of our programs. Programs will change based on customer acceptance of energy saving products, so our ultimate goal is to have informed consumers making intelligent decisions as to how their energy dollars are spent.

Two matching grants allowing the utility to move closer to its customer education objectives and internal utility energy cost reduction goals are scheduled for mid-2012 implementation. A State of Iowa Community Block Grant is helping fund a comprehensive residential and small business energy auditing program. This hands-on approach not only identifies customer energy efficiency issues, it also prioritizes improvements based on their best value for safety, comfort and savings. An American Recovery and Reinvestment Act grant administered by the Iowa Economic Authority is helping fund the retrofit of high pressure sodium street lights with LED street lights. This project improves street lighting quality providing for safer streets while reducing energy usage.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Osage Municipal Utilities' finances and to provide accountability for the money the Utilities receive. If you have questions about this report or need additional financial information, contact Dennis Fannin, General Manager, 720 Chestnut Street, Osage, Iowa.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE
STATEMENTS OF NET ASSETS
AS OF DECEMBER 31:

	Enterprise	
	Light and Power	
	2011	2010
Assets		
Current assets:		
Cash and equivalents	\$ 2,437,678	\$ 2,564,506
Accounts receivable (net of allowance for uncollectibles)	599,096	539,257
Unbilled usage	352,472	355,101
Investments	862,826	845,889
Inventory	434,655	438,582
Prepaid expenses	22,734	23,484
Other assets:		
Bond discount (net of accumulated amortization)	234,919	266,156
Revolving loan receivable	-	-
Capital assets:		
Capital assets (net of accumulated depreciation)	14,201,461	14,172,134
Total assets	19,145,841	19,205,109
Liabilities		
Current liabilities:		
Accounts payable	319,662	336,763
Accounts payable - City of Osage	87,301	80,904
Customer meter deposits	18,311	15,204
Customer budget billing	5,454	222
Accrued expenses	51,726	51,995
Accrued interest	11,959	7,673
Deferred revenue	-	-
Revenue bonds	678,466	667,466
Noncurrent liabilities:		
Revenue bonds (net of current portion)	5,440,660	6,119,126
Bond premium (net of accumulated amortization)	43,170	50,119
Accrued wind expenses	19,000	9,500
OPEB liabilities	24,630	19,608
Total liabilities	6,700,339	7,358,580
Net assets		
Invested in capital assets (net of related debt)	8,082,335	7,385,542
Restricted - bond covenant	856,997	836,369
Unrestricted	3,506,170	3,624,618
Total net assets	\$ 12,445,502	\$ 11,846,529

See notes to financial statements

Funds					
Gas		Non-Major Funds		Total	
2011	2010	2011	2010	2011	2010
\$ 881,714	\$ 892,098	\$ 1,588,615	\$ 1,495,186	\$ 4,908,007	\$ 4,951,790
225,558	200,068	210,925	159,143	1,035,579	898,468
213,240	270,224	-	-	565,712	625,325
-	-	-	-	862,826	845,889
7,767	10,490	23,330	25,428	465,752	474,500
183,706	192,692	4,799	6,206	211,239	222,382
-	-	-	-	234,919	266,156
324,000	360,000	-	-	324,000	360,000
739,340	733,386	35,178	59,824	14,975,979	14,965,344
2,575,325	2,658,958	1,862,847	1,745,787	23,584,013	23,609,854
210,497	286,590	10,342	24,894	540,501	648,247
-	-	-	-	87,301	80,904
34,492	31,726	16,201	15,972	69,004	62,902
95,074	153,562	-	-	100,528	153,784
19,744	21,825	30,545	30,423	102,015	104,243
-	-	-	-	11,959	7,673
-	-	121,592	120,988	121,592	120,988
-	-	-	-	678,466	667,466
-	-	-	-	5,440,660	6,119,126
-	-	-	-	43,170	50,119
-	-	-	-	19,000	9,500
23,028	10,800	13,974	10,448	61,632	40,856
382,835	504,503	192,654	202,725	7,275,828	8,065,808
739,340	733,386	35,178	59,824	8,856,853	8,178,752
-	-	-	-	856,997	836,369
1,453,150	1,421,069	1,635,015	1,483,238	6,594,335	6,528,925
\$ 2,192,490	\$ 2,154,455	\$ 1,670,193	\$ 1,543,062	\$ 16,308,185	\$ 15,544,046

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
AS OF DECEMBER 31:

	Enterprise	
	Light & Power	
	2011	2010
Operating revenues:		
Charges for service	\$ 5,773,807	\$ 5,547,782
Operating expenses:		
Business type activities	5,032,420	4,927,359
Operating income (loss)	741,387	620,423
Non-operating revenues (expenses):		
Interest income	39,837	37,927
Interest expense	(178,421)	(239,590)
Other income	31,186	53,784
Donations	(70,500)	(64,500)
Total non-operating revenues (expenses)	(177,898)	(212,379)
Other financing sources (uses):		
Operating transfers in	39,327	-
Operating transfers out	-	-
Federal awards		114,000
Gain (loss) on sale of capital assets	(3,843)	-
Total other financing sources (uses)	35,484	114,000
Change in net assets	598,973	522,044
Net assets - beginning of year	11,846,529	11,324,485
Net assets - end of year	\$ 12,445,502	\$ 11,846,529

See notes to financial statements

Exhibit B

Funds					
Gas		Non-Major Funds		Total	
2011	2010	2011	2010	2011	2010
\$ 2,198,270	\$ 2,289,544	\$ 1,738,752	\$ 1,752,072	\$ 9,710,829	\$ 9,589,398
2,199,924	2,189,617	1,545,243	1,408,743	8,777,587	8,525,719
(1,654)	99,927	193,509	343,329	933,242	1,063,679
10,025	13,161	13,083	13,660	62,945	64,748
(125)	(169)	(440)	(5,483)	(178,986)	(245,242)
41,345	29,233	14,806	14,162	87,337	97,179
(12,522)	(10,230)	(54,500)	(35,500)	(137,522)	(110,230)
38,723	31,995	(27,051)	(13,161)	(166,226)	(193,545)
-	-	-	-	39,327	-
-	-	(39,327)	-	(39,327)	-
	300,000	-	-	-	414,000
966	4,453	-	-	(2,877)	4,453
966	304,453	(39,327)	-	(2,877)	418,453
38,035	436,375	127,131	330,168	764,139	1,288,587
2,154,455	1,718,080	1,543,062	1,212,894	15,544,046	14,255,459
\$ 2,192,490	\$ 2,154,455	\$ 1,670,193	\$ 1,543,062	\$ 16,308,185	\$ 15,544,046

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

STATEMENTS OF CASH FLOWS
AS OF DECEMBER 31:

	Enterprise	
	Light and Power	
	2011	2010
Cash flows from operating activities:		
Cash receipts from customers	\$ 5,581,413	\$ 5,341,082
Cash received from other funds	143,523	143,632
Cash payments to suppliers	(3,391,853)	(4,241,726)
Cash payments to employees	(587,119)	(620,281)
Cash payments to other funds	-	-
Cash payments for contributions	(52,908)	(57,590)
Net cash provided (used) by operating activities	<u>1,693,056</u>	<u>565,117</u>
Cash flows from noncapital financing activities:		
Transfers in	39,327	-
Transfers out	-	-
Miscellaneous non-operating revenue	31,186	53,784
Donations	(70,500)	(64,500)
Net cash provided (used) by noncapital financing activities	<u>13</u>	<u>(10,716)</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(1,000,134)	(269,853)
Proceeds from federal award	-	114,000
Proceeds from sale of assets	(3,843)	-
Proceeds from revenue bonds	-	5,078,000
Repayment of revenue bonds	(667,466)	(3,722,466)
Acquisition of unamortized discount	2,781	(177,342)
Cash paid for revolving loan	-	-
Cash paid for interest	(174,135)	(249,235)
Net cash Provided (used) by capital and related financing activities	<u>(1,842,797)</u>	<u>773,104</u>
Cash flows from investing activities:		
Purchases of investments	(16,937)	(215,935)
Investment income	39,837	37,927
Net cash provided (used) by investing activities	<u>22,900</u>	<u>(178,008)</u>
Net increase (decrease) in cash and cash equivalents	(126,828)	1,149,497
Cash and cash equivalents-beginning of year	2,564,506	1,415,009
Cash and cash equivalents-end of year	<u>\$ 2,437,678</u>	<u>\$ 2,564,506</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Income (loss) from operations	\$ 741,387	\$ 620,423
Adjustments to reconcile operating income to Net cash provided (used) by operating activities:		
Depreciation and amortization	992,314	997,688
Change in accounts receivable	(59,839)	(3,487)
Change in meter deposits and unbilled usage	10,968	(59,581)
Change in prepaid expenses	750	(1,592)
Change in inventory	3,927	41,796
Change in accounts payable and other liabilities	3,549	(1,030,130)
Net cash provided (used) by noncapital financing activities	<u>\$ 1,693,056</u>	<u>\$ 565,117</u>

See notes to financial statements

Funds					
Gas		Non- Major Funds		Total	
2011	2010	2011	2010	2011	2010
\$ 2,174,042	\$ 2,486,423	\$ 1,687,803	\$ 1,729,996	\$ 9,443,258	\$ 9,557,501
-	-	-	-	143,523	143,632
(1,754,820)	(1,818,442)	(994,996)	(840,260)	(6,141,669)	(6,900,428)
(325,070)	(314,175)	(386,998)	(348,615)	(1,299,187)	(1,283,071)
-	-	(143,523)	(143,632)	(143,523)	(143,632)
(103,444)	(92,535)	(2,479)	(2,479)	(158,831)	(152,604)
(9,292)	261,271	159,807	395,010	1,843,571	1,221,398
-	-	-	-	39,327	-
-	-	(39,327)	-	(39,327)	-
41,345	29,233	14,806	14,162	87,337	97,179
(12,522)	(10,230)	(54,500)	(35,500)	(137,522)	(110,230)
28,823	19,003	(79,021)	(21,338)	(50,185)	(13,051)
(76,781)	(31,767)	-	(6,380)	(1,076,915)	(308,000)
-	300,000	-	-	-	414,000
966	5,661	-	-	(2,877)	5,661
-	-	-	-	-	5,078,000
-	-	-	(200,000)	(667,466)	(3,922,466)
-	-	-	-	2,781	(177,342)
36,000	(360,000)	-	-	36,000	(360,000)
(125)	(169)	(440)	(6,192)	(174,700)	(255,596)
(39,940)	(86,275)	(440)	(212,572)	(1,883,177)	474,257
-	-	-	-	(16,937)	(215,935)
10,025	13,161	13,083	13,660	62,945	64,748
10,025	13,161	13,083	13,660	46,008	(151,187)
(10,384)	207,160	93,429	174,760	(43,783)	1,531,417
892,098	684,938	1,495,186	1,320,426	4,951,790	3,420,373
\$ 881,714	\$ 892,098	\$ 1,588,615	\$ 1,495,186	\$ 4,908,007	\$ 4,951,790
\$ (1,654)	\$ 99,927	\$ 193,509	\$ 343,329	\$ 933,242	\$ 1,063,679
70,827	69,056	24,646	29,047	1,087,787	1,095,791
(25,490)	175,184	(51,782)	2,017	(137,111)	173,714
1,262	21,695	229	307	12,459	(37,579)
8,986	(21,290)	1,407	29,820	11,143	6,938
2,723	2,562	2,098	12,480	8,748	56,838
(65,946)	(85,863)	(10,300)	(21,990)	(72,697)	(1,137,983)
\$ (9,292)	\$ 261,271	\$ 159,807	\$ 395,010	\$ 1,843,571	\$ 1,221,398

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Osage Municipal Utilities is a component unit of the City of Osage whose funds are reported under separate cover utilizing a fiscal year ending June 30. The City of Osage is a political subdivision of the State of Iowa located in Mitchell County. Osage Municipal Utilities is governed by a separate Board of Trustees and operates under the authority of Chapter 388 of the Code of Iowa. Osage Municipal Utilities provides electric, gas, cable, telephone, internet, and wireless internet services on a user charge basis to the general public and other governmental units within Mitchell County, Iowa.

A.) Reporting Entity

For financial reporting purposes, Osage Municipal Utilities has included all funds, organizations, agencies, boards, commissions and authorities. Osage Municipal Utilities has also considered all other potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with Osage Municipal Utilities are such that exclusion would cause Osage Municipal Utilities' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of Osage Municipal Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on Osage Municipal Utilities. Osage Municipal Utilities has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

Osage Municipal Utilities participates in a jointly governed organization that provides goods and services to Osage Municipal Utilities but does not meet the criteria of a joint venture since there is not an ongoing financial interest or responsibility by the participating parties. The General Manager serves on the Upper Midwest Municipal Power Agency.

Osage Municipal Utilities also participates in a jointly governed organization that is currently in the developmental stage. It is anticipated that eventually this organization will provide goods and services to Osage Municipal Utilities. The arrangement does not meet the criteria of a joint venture because there is not an ongoing financial responsibility by the participating parties. The General Manager serves on the board of the Iowa Stored Energy Park Agency.

B.) Basis of Presentation

Fund Financial Statements – Separate financial statements are provided for proprietary funds. Major individual proprietary funds are reported as separate columns in the financial statements.

Osage Municipal Utilities has two major funds:

The Light and Power Fund is used to account for delivery of electricity to the citizens and businesses of Osage.

The Gas Fund is used to account for the delivery of natural gas to the citizens and businesses of Osage.

C.) Measurement Focus and Basis of Accounting

Osage Municipal Utilities maintains their financial records on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

The proprietary funds of Osage Municipal Utilities apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of Osage Municipal Utilities result from charges to customers for sales and services. Operating expenses include cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D.) Budgets and Budgetary Accounting

The budgetary comparison and related disclosure are reported as Required Supplementary Information. During the year ended December 31, 2011, disbursements did not exceed the amounts budgeted. However, transfers were not budgeted.

E.) Osage Municipal Utilities Plant and Depreciation

Osage Municipal Utilities' plant is stated at original cost when first placed in service. Expenditures for additions and betterments over \$2,500 (including labor charges) are capitalized, while expenditures for repairs and maintenance are charged to operations as incurred. Interest costs incurred during construction periods are also capitalized. The costs of assets retired or sold and the related accumulated depreciation are eliminated from the accounts in the year of disposal, with the resulting gain or loss credited or charged to operations. The straight-line method is used for computing depreciation with estimated useful lives ranging from two to fifty years.

F.) Revenue, Unbilled Usage, and Deferred Revenue

Revenues are based on billing rates applied to customers' consumption. Unbilled usage represents revenues based upon estimated consumption for the period between the last billing dates and the end of the year. Deferred revenue represents amounts billed for cable, internet, and telephone services that had not yet been provided at the end of the year.

G.) Inventory

Inventories, which consist of fuel oil and materials for plant and distribution systems, are stated at the lower of cost (first-in, first-out) or market. Inventories are recorded as expenses when consumed rather than when purchased.

H.) Rate Matters

Rates charged by Osage Municipal Utilities are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

I.) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J.) Fair Value of Financial Instruments

The Utilities are required to disclose the estimated fair values for all financial instruments for which it is practicable to estimate fair value. For instruments including cash, accounts receivable and payable and accruals, it was assumed that the carrying amounts approximated fair value because of their short maturities. The carrying amounts of long term debt, which matures through the year 2029, are also assumed to approximate their fair value.

K.) Cash and Cash Equivalents

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

L.) Restricted Assets

Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

M.) Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Osage Municipal Utilities electric and gas use the direct write off method to charge off uncollectible accounts receivable. A 1.5% per month penalty is charged for accounts older than 30 days. Accumulated penalties included in the accounts receivable balance at December 31, 2011 and 2010 amounted to less than \$1,000. The charges originate substantially from the Light and Power fund. Utilities are shut off for all users when 32 days past due except for utilities purchased under Iowa's Winter Utility Shutoff Moratorium. Therefore, uncollectible accounts are insignificant. Past history shows an allowance would be minimal.

Osage Municipal Utilities telecom uses the allowance method to charge off uncollectible accounts receivable. Management uses its judgment based primarily on the length of time specific accounts have been outstanding in determining the estimated allowance for doubtful accounts and related accounts receivable write offs. A 1.5% per month penalty is charged for accounts older than 30 days. Accumulated penalties included in the accounts receivable balance at December 31, 2011 and 2010 amounted to less than \$1,000. The charges originate substantially from the Light and Power fund.

Any allowance for uncollectible accounts as of December 31, 2011 and 2010 would be minimal.

NOTE 2 - CASH AND INVESTMENTS

Osage Municipal Utilities' deposits at December 31, 2011 and 2010 (which include certificates of deposit totaling \$862,827 and \$845,889 respectively) were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

Osage Municipal Utilities are authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; warrants or improvement certificates of a drainage district.

Osage Municipal Utilities have funds on deposit with the Wisconsin Local Government Investment Pool as part of their Shared Transmission System Agreement with Dairyland Power Cooperative. According to the agreement, the funds can be withdrawn at any time, and have been withdrawn in the past. These deposits were \$264,566 and \$275,095 as of December 31, 2011 and 2010, respectively. The Wisconsin Local Government Investment Pool is held outside the State of Iowa. Cash is used in order to invest in transmission improvements and to cover control center costs.

Osage Municipal Utilities' investments are categorized to give an indication of the level of risk assumed by Osage Municipal Utilities at year-end. Osage Municipal Utilities' investments are all category 1, which means that the investments are insured or registered or the securities are held by Osage Municipal Utilities or their agent in Osage Municipal Utilities' name.

Interest Rate Risk – Osage Municipal Utilities' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of Osage Municipal Utilities.

NOTE 3 - REVENUE BONDS PAYABLE

The following is a summary of changes in long-term debt for the years ended December 31, 2011 and 2010.

Light and Power Fund:

	Bal. 1/1/11	Issued	Repaid	Bal. 12/31/11
Business Type activities:				
Revenue Bonds - issued September 2001	\$ 370,000	\$ -	\$ 370,000	\$ -
Revenue Bonds - issued November 2008	1,445,592	-	120,466	1,325,126
Revenue Bonds - issued February 2010	441,000	-	17,000	424,000
Revenue Bonds - issued February 2010	1,200,000	-	100,000	1,100,000
Revenue Bonds - issued December 2010	3,330,000	-	60,000	3,270,000
Total	\$ 6,786,592	\$ -	\$ 667,466	\$ 6,119,126

Light and Power Fund:

	Bal. 1/1/10	Issued	Repaid	Bal. 12/31/10
Business Type activities:				
Revenue Bonds - issued September 2001	\$ 3,865,000	\$ -	\$ 3,495,000	\$ 370,000
Revenue bonds - issued November 2008	1,566,058	-	120,466	1,445,592
Revenue Bonds - issued February 2010	-	458,000	17,000	441,000
Revenue Bonds - issued February 2010	-	1,290,000	90,000	1,200,000
Revenue Bonds - issued December 2010	-	3,330,000	-	3,330,000
Total	\$ 5,431,058	\$ 5,078,000	\$ 3,722,466	\$ 6,786,592

Telephony Fund

	Bal. 1/1/11	Issued	Repaid	Bal. 12/31/11
Business Type activities:				
Revenue bonds - issued July 2002	\$ -	\$ -	\$ -	\$ -
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Telephony Fund

	Bal. 1/1/10	Issued	Repaid	Bal. 12/31/10
Business Type activities:				
Revenue bonds - issued July 2002	\$ 200,000	\$ -	\$ 200,000	\$ -
Total	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ 200,000</u>	<u>\$ -</u>

The Proceeds from the revenue bonds as reported by the Telephony Fund were received from the City of Osage as a result of a General Obligation debt issuance by the City. It is classified as revenue bonds herein as Osage Municipal Utilities' ability to pay is reliant on charges to its customers. Annual debt service requirements to maturity for the revenue bonds are as follows:

Year Ending December 31	Light & Power Series 2008 Interest 1.27 %		Light & Power SRF Note 2010 Interest 3.0 %		Light & Power Series 2010 Interest 2.0 - 4.0 %		Light & Power Series 2010 Interest 2.0 - 3.25 %		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	120,466	16,829	18,000	12,720	100,000	33,900	440,000	80,063	678,466	143,512
2013	120,466	15,299	18,000	12,180	100,000	31,900	445,000	71,262	683,466	130,641
2014	120,466	13,769	19,000	11,640	100,000	29,900	455,000	62,363	694,466	117,672
2015	120,466	12,239	19,000	11,070	100,000	27,600	465,000	53,262	704,466	104,171
2016	120,466	10,710	20,000	10,500	100,000	25,000	480,000	42,800	720,466	89,010
2017-2021	602,330	30,599	111,000	43,080	500,000	76,000	985,000	47,050	2,198,330	196,729
2022-2026	120,466	1,530	130,000	25,350	100,000	4,000	-	-	350,466	30,880
2027-2029	-	-	89,000	5,370	-	-	-	-	89,000	5,370
	<u>1,325,126</u>	<u>100,975</u>	<u>424,000</u>	<u>131,910</u>	<u>1,100,000</u>	<u>228,300</u>	<u>3,270,000</u>	<u>356,800</u>	<u>6,119,126</u>	<u>817,985</u>

Bond discount amortization was \$21,507 and \$15,881, respectively for the years ended December 31, 2011 and 2010.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

A.) The bond will only be redeemed from the earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.

B.) Sufficient monthly transfers shall be made to the sinking fund for the purpose of making the note principal and interest payments when due.

C.) Sufficient monthly transfers shall be made to a reserve fund to be used solely for the purpose of paying principal at maturity or interest on the bonds for the payment of which sufficient money may not be available in the sinking fund. The reserve fund set aside amounted to \$688,499 and \$678,659 at December 31, 2011 and 2010 respectively.

D.) Sufficient monthly transfers shall be made to an improvement fund to be used solely for the purpose of paying principal or interest on the bonds should insufficient money be available in the sinking and reserve funds; and to the extent not required for the foregoing purposes to pay the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget or revenues and current expenses, or capital improvements to the system. The required minimum balance in the reserve is \$100,000 and has been achieved as of December 31, 2011 and 2010.

NOTE 4 - INTEREST COSTS

During the years ended December 31, 2011 and 2010, the interest incurred and expensed is as follows:

	December 31, 2011	December 31, 2010
Light and Power	\$ 178,421	\$ 239,590
Gas	\$ 125	\$ 169
Non-Major Funds	\$ 440	\$ 5,483

NOTE 5 - PENSION AND RETIREMENT BENEFITS

Osage Municipal Utilities contribute to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members were required to contribute 5.38% through December 2011 (4.50% through June 30, 2011 and 4.30% through June 30, 2010) of their salary and Osage Municipal Utilities was required to contribute 8.07% through December 2011 (6.95% through June 30, 2011 and 6.65% through June 30, 2010) of covered payroll. Contribution requirements are established by State statute. Osage Municipal Utilities' contributions to IPERS for the years ended December 31, 2011, 2010 and 2009 were \$87,420, \$74,475, and \$72,429, respectively, equal to the required contributions for each year.

NOTE 6 - RISK MANAGEMENT

Osage Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three calendar years. Osage Municipal Utilities assume liability for any deductibles and claims in excess of coverage limitations.

NOTE 7 - COMPENSATED ABSENCES

Osage Municipal Utilities' employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the proprietary fund financial statements. Osage Municipal Utilities' approximate liability for earned vacation payment payable to employees at December 31, 2011 and 2010 is as follows:

December 31, 2011	Light and Power	Gas	Non-Major	Total
Vacation	<u>\$ 36,974</u>	<u>\$ 13,248</u>	<u>\$ 12,867</u>	<u>\$ 63,089</u>
December 31, 2010	Light and Power	Gas	Non-Major	Total
Vacation	<u>\$ 37,833</u>	<u>\$ 13,793</u>	<u>\$ 6,726</u>	<u>\$ 58,352</u>

NOTE 8 - INTERFUND TRANSFERS

There were interfund transfers made during the year ended December 31, 2011, but there were no interfund transfers made during the year ended December 31, 2010. The transfers are as follows:

Transfers for the year ended December 31, 2011:		
Transferred from:	Transferred to:	Amount
Telephone	Electric	\$ 26,772
Cable	Electric	<u>12,555</u>
	Total	<u>\$ 39,327</u>

NOTE 9 - JOINT LEASE AGREEMENT

Osage Municipal Utilities' Light and Power Fund constructed a Fiber Optic System to facilitate information transmission. Portions of this system are leased to the Cable, Internet, Telephony and Wireless funds under a thirty-year operating lease, requiring annual payments of \$142,408. Future minimum lease payments are as follows:

Year Ending:	Payments
2012	\$ 142,408
2013	142,408
2014	142,408
2015	142,408
2016	142,408
2017-2021	712,040
2022-2026	712,040
2027-2031	712,040
2032-2035	569,632
Total	<u>\$3,417,792</u>

NOTE 10 - CAPITAL ASSETS

The following schedules disclose the major fixed assets additions for the years ended December 31, 2011 and 2010.

Light and Power Fund - 2011

Capital Assets	Balance 12/31/10	Increases	Decreases	Balance 12/31/11
Capital Assets not being depreciated:				
Land	\$ 41,029	\$ -	\$ -	\$ 41,029
Iowa Stored Energy Park Agency	90,000	-	-	90,000
Construction in progress	-	-	-	-
Capital Assets being depreciated:				
Buildings and improvements	1,214,007	2,784	15,947	1,200,844
Generating equipment and lines	14,453,812	576,492	36,394	14,993,910
HFC distribution center	5,767,279	19,883	-	5,787,162
Equipment and vehicles	1,474,894	257,361	211,199	1,521,056
Broadband room and digital cable	196,262	148,401	-	344,663
Wind Energy	3,590,026	27,634	-	3,617,660
Total Capital assets	26,827,309	1,032,555	263,540	27,596,324
Less: Accumulated depreciation	12,655,175	975,087	235,399	13,394,863
Book Value	<u>\$ 14,172,134</u>			<u>\$ 14,201,461</u>

Light and Power Fund - 2010

Capital Assets	Balance 12/31/09	Increases	Decreases	Balance 12/31/10
Capital Assets not being depreciated:				
Land	\$ 41,029	\$ -	\$ -	\$ 41,029
Iowa Stored Energy Park Agency	90,000	-	-	90,000
Construction in progress	-	-	-	-
Capital Assets being depreciated:				
Buildings and improvements	1,214,007	-	-	1,214,007
Generating equipment and lines	14,325,946	127,866	-	14,453,812
HFC distribution center	5,757,149	10,130	-	5,767,279
Equipment and vehicles	1,470,240	29,197	24,543	1,474,894
Broadband room and digital cable	196,262	-	-	196,262
Wind Energy	3,487,366	102,660	-	3,590,026
Total Capital assets	26,581,999	269,853	24,543	26,827,309
Less: Accumulated depreciation	11,697,911	981,807	24,543	12,655,175
Book Value	<u>\$ 14,884,088</u>			<u>\$ 14,172,134</u>

Gas Fund - 2011

	Balance 12/31/2010	Increases	Decreases	Balance 12/31/2011
Capital Assets				
Capital Assets not being depreciated:				
Land	\$ 7,734	\$ -	\$ -	\$ 7,734
Iowa Stored Energy Park Agency	40,000	-	-	40,000
Capital Assets being depreciated:				
Buildings and improvements	588,741	-	7,826	580,915
Peak shaving plant	237,888	17,196	608	254,476
Gas Plant, lines and meters	886,838	17,373	26,048	878,163
Equipment and vehicles	522,208	42,212	93,850	470,570
Total Capital assets	2,283,409	76,781	128,332	2,231,858
Less: Accumulated depreciation	1,550,023	70,827	128,332	1,492,518
Book Value	<u>\$ 733,386</u>			<u>\$ 739,340</u>

Gas Fund - 2010

	Balance 12/31/2009	Increases	Decreases	Balance 12/31/2010
Capital Assets				
Capital Assets not being depreciated:				
Land	\$ 7,734	\$ -	\$ -	\$ 7,734
Iowa Stored Energy Park Agency	40,000	-	-	40,000
Capital Assets being depreciated:				
Buildings and improvements	588,741	-	-	588,741
Peak shaving plant	237,888	-	-	237,888
Gas Plant, lines and meters	858,036	28,802	-	886,838
Equipment and vehicles	568,250	2,965	49,007	522,208
Total Capital assets	2,300,649	31,767	49,007	2,283,409
Less: Accumulated depreciation	1,528,766	69,056	47,799	1,550,023
Book Value	<u>\$ 771,883</u>			<u>\$ 733,386</u>

Internet and Wireless Funds (combined) - 2011

	Balance 12/31/2010	Increases	Decreases	Balance 12/31/2011
Capital Assets				
Capital Assets not being depreciated:				
Equipment	\$ 255,975	\$ -	\$ 24,255	\$ 231,720
Organizational Costs	40,476	-	-	40,476
Total Capital assets	296,451	-	24,255	272,196
Less: Accumulated depreciation	236,627	24,646	24,255	237,018
Book Value	<u>\$ 59,824</u>			<u>\$ 35,178</u>

Internet and Wireless Funds (combined) - 2010

	Balance 12/31/2009	Increases	Decreases	Balance 12/31/2010
Capital Assets				
Capital Assets not being depreciated:				
Equipment	\$ 249,595	\$ 6,380	\$ -	\$ 255,975
Organizational Costs	40,476	-	-	40,476
Total Capital assets	290,071	6,380	-	296,451
Less: Accumulated depreciation	207,580	29,047	-	236,627
Book Value	<u>\$ 82,491</u>			<u>\$ 59,824</u>

NOTE 11 - RESTRICTED ASSETS

As required by bond resolution, the Light and Power Fund of Osage Municipal Utilities has set aside the following reserve funds for the years ended December 31, 2011 and 2010:

	December 31, 2011			
	Reserve for Debt Service	Reserve for Sinking Fund	Reserve for System Improvement	Total
Balance, beginning of year	\$ 678,659	\$ 57,710	\$ 100,000	\$ 836,369
Deposits	9,840	10,788	-	20,628
Withdrawals	-		-	-
Balance, end of year	<u>\$ 688,499</u>	<u>\$ 68,498</u>	<u>\$ 100,000</u>	<u>\$ 856,997</u>

December 31, 2010				
	Reserve for	Reserve for	Reserve for	
	Debt Service	Sinking Fund	System Improvement	Total
Balance, beginning of year	\$ 682,710	\$ 58,722	\$ 100,000	\$ 841,432
Deposits	-	-	-	-
Withdrawals	4,051	1,012	-	5,063
Balance, end of year	\$ 678,659	\$ 57,710	\$ 100,000	\$ 836,369

NOTE 12 - REVOLVING LOAN FUND RECEIVABLE

Osage Municipal Utilities received a grant to be used for economic development programs. The initial loan was to the City of Osage for \$360,000 and as they repay their portion the Utilities will develop new programs to loan the money back out. As of December 31, 2011 and 2010 the balance of the receivable was \$324,000 and \$360,000 leaving balances of \$36,000 and \$0 respectfully to be loaned out.

NOTE 13 - ECONOMIC DEVELOPMENT

Osage Municipal Utilities' Board of Trustees has agreed to contribute financially to assist in constructing the Cedar River Recreation & Fine Arts Complex. The contributions were \$125,000 and \$100,000 for the years ended December 31, 2011 and 2010 respectively. The annual contributions are anticipated to be \$100,000 per year for the next 10 years. The contributions may only come from surpluses generated by Osage Municipal Utilities and are expected to attract economic activity to the region.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description. Osage Municipal Utilities operates a single-employer health plan which provides medical/ prescription drug benefits for employees and retirees and their spouses. There are 21 active members and 1 retired member in the plan. Retired participants must be age 55 or older at retirement.

The medical prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy. The contribution requirements of plan members are established and may be amended by Osage Municipal Utilities. Osage Municipal Utilities currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation. Osage Municipal Utilities' annual OPEB cost is calculated based on the annual required contribution (ARC) of Osage Municipal Utilities, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

As of December 31 2011, and 2010 Osage Municipal Utilities' had an OPEB prepaid balance of \$1,762 and \$3,128 and an OPEB Liability balance of \$61,632 and \$40,856 respectfully. The following table shows the components of the Osage Municipal Utilities' annual OPEB cost for the years ended December 31, 2011 and December 31 2010, the amount actually contributed to the plan and changes in Osage Municipal Utilities' net OPEB obligations:

December 31, 2011				
	Light and Power	Gas	Nonmajor Funds	Total
Annual required contribution	\$ 10,944	\$ 10,864	\$ 8,350	\$ 30,158
Interest on net OPEB obligation	548	544	417	1,509
Adjustment to annual required contribution	(544)	(540)	(416)	(1,500)
Annual OPEB cost	10,948	10,868	8,351	30,167
Contributions made	5,926	(1,360)	3,459	8,025
Increase in net OPEB obligation	5,022	12,228	4,892	22,142
Net OPEB obligation beginning of year	19,608	10,800	7,320	37,728
Net OPEB obligation end of year	\$ 24,630	\$ 23,028	\$ 12,212	\$ 59,870

December 31, 2010				
	Light and Power	Gas	Nonmajor Funds	Total
Annual required contribution	\$ 9,804	\$ 9,987	\$ 5,677	\$ 25,468
Interest on net OPEB obligation	-	-	-	-
Adjustment to annual required contribution	-	-	-	-
Annual OPEB cost	9,804	9,987	5,677	25,468
Contributions made	-	4,587	2,017	6,604
Increase in net OPEB obligation	9,804	5,400	3,660	18,864
Net OPEB obligation beginning of year	9,804	5,400	3,660	18,864
Net OPEB obligation end of year	\$ 19,608	\$ 10,800	\$ 7,320	\$ 37,728

For calculation of the net OPEB obligation, the actuary has set the transition day as January 1, 2011. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended December 31, 2011.

For the years ended December 31, 2011 and 2010, the Utilities contributed \$ 0 to the medical plan. Plan members eligible for benefits contributed \$ 0 of the OPEB liability. One Osage Municipal Utilities retiree is currently in the retirement benefit plan.

Osage Municipal Utilities' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2009	25,468	25.9%	18,864
December 31, 2010	25,468	25.9%	37,728
December 31, 2011	30,167	26.6%	59,870

Funded Status and Funding Progress. As of January 1, 2011, the most recent actuarial valuation date for the period January 1, 2009 through December 31, 2011, the actuarial accrued liability was \$204,023, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$204,023. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,084,093 and the ratio of the UAAL to covered payroll was 18.8%. As of December 31, 2011 and 2010, there were no trust fund assets.

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of January 1, 2011 actuarial valuation date, the unit credit cost method was used. The actuarial assumptions include a 4% discount rate based on Osage Municipal Utilities' funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP-2000 Combined Mortality Table projected to 2010 using scale AA. Annual retirement probability 100% at age 60 and termination probabilities were developed based on national averages.

Projected claim costs of the medical plan for retirees are \$832 per month for the Traditional Plan and \$555 for the HSA Plan. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

NOTE 15 - SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through July 12, 2012.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN BALANCES – BUDGET AND ACTUAL –
ALL ENTERPRISE FUNDS**

DECEMBER 31, 2011

	Proprietary Funds Actual	Budgeted Amounts Original	Final to Net Variance
Receipts:			
Charges for service	9,710,829	9,971,523	(260,694)
Use of money & property	62,945	37,740	25,205
Miscellaneous	87,337	212,053	(124,716)
Other Financing Sources	39,327	-	39,327
Total receipts	9,900,438	10,221,316	(320,878)
Disbursements:			
Program:			
Business type activities	9,094,095	10,055,597	961,502
Transfers Out	39,327	-	(39,327)
Total disbursements	9,133,422	10,055,597	922,175
Excess (deficiency) of receipts Over (under) disbursements	767,016	165,719	601,297
Other financing sources, net	(2,877)	-	(2,877)
Net income	764,139	165,719	598,420
Balance beginning of year	15,544,046	16,264,778	
Balance end of year	16,308,185	16,430,497	

See accompanying independent auditor's report

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
YEAR ENDED DECEMBER 31, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for each major proprietary fund.

In accordance with Code of Iowa, the Board of Trustees annually adopts a budget on the accrual basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for all Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

For the year ended December 31, 2011, Osage Municipal Utilities did not exceed budgeted expenditures. However they did not budget for transfers.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

**SCHEDULE OF FUNDING PROGRESS FOR
RETIREE HEALTH PLAN
(In Thousands)**

DECEMBER 31, 2011

Year Ended December 31,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
2009	January 1, 2009	-	182	182	0.00%	1,144	15.91%
2010	January 1, 2009	-	182	182	0.00%	1,164	15.64%
2011	January 1, 2011	-	204	204	0.00%	1,084	18.82%

See Note 13 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

**COMBINING SCHEDULES OF NET ASSETS
NON-MAJOR ENTERPRISE FUNDS**

AS OF DECEMBER 31:

	Internet		Enterprise	
	2011	2010	2011	2010
Assets				
Current assets:				
Cash and equivalents	\$ 152,550	\$ 162,025	\$ 737,227	\$ 670,249
Accounts receivable (net of allowance for uncollectibles)	13,231	860	96,359	88,050
Unbilled usage	-	-	-	-
Inventory	-	-	15,553	16,952
Prepaid expenses	-	-	3,584	4,948
Capital assets:				
Capital assets (net of accumulated depreciation)	626	651	-	-
Total assets	166,407	163,536	852,723	780,199
Liabilities				
Current liabilities:				
Accounts payable	8	374	6,339	9,635
Customer meter deposits	-	-	13,115	12,216
Accrued expenses	-	3,850	6,354	4,291
Deferred revenue	-	-	86,963	82,740
Noncurrent liabilities:				
OPEB liabilities	5,462	3,984	-	-
Total liabilities	5,470	8,208	112,771	108,882
Net assets				
Invested in capital assets (net of related debt)	626	651	-	-
Unrestricted	160,311	154,677	739,952	671,317
Total net assets	\$ 160,937	\$ 155,328	\$ 739,952	\$ 671,317

See notes to financial statements

Funds					
Telephony		Rural Wireless		Total	
2011	2010	2011	2010	2011	2010
\$ 597,539	\$ 602,402	\$ 101,299	\$ 60,510	\$ 1,588,615	\$ 1,495,186
95,933	65,122	5,402	5,111	210,925	159,143
-	-	-	-	-	-
7,777	8,476	-	-	23,330	25,428
1,215	1,258	-	-	4,799	6,206
-	-	34,552	59,173	35,178	59,824
702,464	677,258	141,253	124,794	1,862,847	1,745,787
3,995	14,487	-	398	10,342	24,894
2,186	1,956	900	1,800	16,201	15,972
24,191	22,282	-	-	30,545	30,423
29,227	33,102	5,402	5,146	121,592	120,988
8,512	6,464	-	-	13,974	10,448
68,111	78,291	6,302	7,344	192,654	202,725
-	-	34,552	59,173	35,178	59,824
634,353	598,967	100,399	58,277	1,635,015	1,483,238
\$ 634,353	\$ 598,967	\$ 134,951	\$ 117,450	\$ 1,670,193	\$ 1,543,062

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

**COMBINING SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET ASSETS
NON-MAJOR ENTERPRISE FUNDS**

AS OF DECEMBER 31:

	Internet		Cable		Enterprise
	2011	2010	2011	2010	
Operating revenues:					
Charges for service	\$ 20,135	\$ 30,482	\$ 1,032,002	\$ 995,394	
Operating expenses:					
Business type activities	14,513	19,802	946,633	785,799	
Operating income (loss)	5,622	10,680	85,369	209,595	
Non-operating revenues (expenses):					
Interest income	1,335	1,404	5,922	5,685	
Interest expense	-	-	(293)	(511)	
Other income	327	-	7,342	2,420	
Donations	(1,675)	(1,500)	(17,150)	(4,500)	
Total non-operating revenues (expenses)	(13)	(96)	(4,179)	3,094	
Other financing sources (uses):					
Operating transfers out	-	-	(12,555)	-	
Total other financing sources (uses)	-	-	(12,555)	-	
Change in net assets	5,609	10,584	68,635	212,689	
Net assets - beginning of year	155,328	144,744	671,317	458,628	
Net assets - end of year	<u>\$ 160,937</u>	<u>\$ 155,328</u>	<u>\$ 739,952</u>	<u>\$ 671,317</u>	

See notes to financial statements

Funds					
Telephony		Rural Wireless		Total	
2011	2010	2011	2010	2011	2010
\$ 624,830	\$ 664,603	\$ 61,785	\$ 61,593	\$ 1,738,752	\$ 1,752,072
540,402	546,827	43,695	56,315	1,545,243	1,408,743
84,428	117,776	18,090	5,278	193,509	343,329
5,174	6,172	652	399	13,083	13,660
(81)	(4,899)	(66)	(73)	(440)	(5,483)
7,137	11,742	-	-	14,806	14,162
(34,500)	(28,500)	(1,175)	(1,000)	(54,500)	(35,500)
(22,270)	(15,485)	(589)	(674)	(27,051)	(13,161)
(26,772)	-	-	-	(39,327)	-
(26,772)	-	-	-	(39,327)	-
35,386	102,291	17,501	4,604	127,131	330,168
598,967	496,676	117,450	112,846	1,543,062	1,212,894
\$ 634,353	\$ 598,967	\$ 134,951	\$ 117,450	\$ 1,670,193	\$ 1,543,062

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

**COMBINING SCHEDULES OF CASH FLOWS
NON-MAJOR ENTERPRISE FUNDS**

AS OF DECEMBER 31:

	Internet		Enterprise Cable	
	2011	2010	2011	2010
Cash flows from operating activities:				
Cash receipts from customers	\$ 7,764	\$ 32,461	\$ 1,028,815	\$ 1,003,246
Cash payments to suppliers	(10,833)	(13,165)	(684,093)	(563,961)
Cash payments to employees	(329)	(809)	(182,545)	(163,524)
Cash payments to other funds	(3,585)	(4,335)	(78,465)	(77,689)
Cash payments for contributions	(2,479)	(2,479)	-	-
Net cash provided (used) by operating activities	(9,462)	11,673	83,712	198,072
Cash flows from noncapital financing activities:				
Transfers out	-	-	(12,555)	-
Miscellaneous non-operating revenue	327	-	7,342	2,420
Donations	(1,675)	(1,500)	(17,150)	(4,500)
Net cash provided (used) by noncapital financing activities	(1,348)	(1,500)	(22,363)	(2,080)
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	-	-	-	-
Repayment of revenue bonds	-	-	-	-
Cash paid for interest	-	-	(293)	(511)
Net cash (used) by capital and related financing activities	-	-	(293)	(511)
Cash flows from investing activities:				
Investment income	1,335	1,404	5,922	5,685
Net cash provided by investing activities	1,335	1,404	5,922	5,685
Net increase (decrease) in cash and cash equivalents	(9,475)	11,577	66,978	201,166
Cash and cash equivalents-beginning of year	162,025	150,448	670,249	469,083
Cash and cash equivalents-end of year	<u>\$ 152,550</u>	<u>\$ 162,025</u>	<u>\$ 737,227</u>	<u>\$ 670,249</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Income (loss) from operations	\$ 5,622	\$ 10,680	\$ 85,369	\$ 209,595
Adjustments to reconcile operating income to Net cash provided by operating activities:				
Depreciation and amortization	25	25	-	-
Change in accounts receivable	(12,371)	563	(8,309)	7,946
Change in meter deposits and unbilled usage	-	1,416	899	(2,820)
Change in prepaid expenses	-	-	1,364	(1,593)
Change in inventory	-	-	1,399	(16,952)
Change in accounts payable and other liabilities	(2,738)	(1,011)	2,990	1,896
Net cash provided (used) by noncapital financing activities	<u>\$ (9,462)</u>	<u>\$ 11,673</u>	<u>\$ 83,712</u>	<u>\$ 198,072</u>

See notes to financial statements

Funds					
Telephony		Rural Wireless		Total	
2011	2010	2011	2010	2011	2010
\$ 590,374	\$ 632,412	\$ 60,850	\$ 61,877	\$ 1,687,803	\$ 1,729,996
(290,198)	(247,810)	(9,872)	(15,324)	(994,996)	(840,260)
(198,705)	(176,445)	(5,419)	(7,837)	(386,998)	(348,615)
(57,292)	(57,317)	(4,181)	(4,291)	(143,523)	(143,632)
-	-	-	-	(2,479)	(2,479)
44,179	150,840	41,378	34,425	159,807	395,010
(26,772)	-	-	-	(39,327)	-
7,137	11,742	-	-	14,806	14,162
(34,500)	(28,500)	(1,175)	(1,000)	(54,500)	(35,500)
(54,135)	(16,758)	(1,175)	(1,000)	(79,021)	(21,338)
-	-	-	(6,380)	-	(6,380)
-	(200,000)	-	-	-	(200,000)
(81)	(5,608)	(66)	(73)	(440)	(6,192)
(81)	(205,608)	(66)	(6,453)	(440)	(212,572)
5,174	6,172	652	399	13,083	13,660
5,174	6,172	652	399	13,083	13,660
(4,863)	(65,354)	40,789	27,371	93,429	174,760
602,402	667,756	60,510	33,139	1,495,186	1,320,426
\$ 597,539	\$ 602,402	\$ 101,299	\$ 60,510	\$ 1,588,615	\$ 1,495,186
\$ 84,428	\$ 117,776	\$ 18,090	\$ 5,278	\$ 193,509	\$ 343,329
-	-	24,621	29,022	24,646	29,047
(30,811)	(6,609)	(291)	117	(51,782)	2,017
230	1,711	(900)	-	229	307
43	31,413	-	-	1,407	29,820
699	29,432	-	-	2,098	12,480
(10,410)	(22,883)	(142)	8	(10,300)	(21,990)
\$ 44,179	\$ 150,840	\$ 41,378	\$ 34,425	\$ 159,807	\$ 395,010

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE
COMBINING SCHEDULES OF OPERATING REVENUES
ENTERPRISE FUNDS

AS OF DECEMBER 31:

	Enterprise	
	Light and Power	
	2011	2010
Operating Revenues:		
Rural	\$ 124,279	\$ 122,198
Residential sales	1,527,920	1,487,139
Commercial and industrial	3,776,709	3,530,308
Public buildings	41,016	45,673
Interruptibles	-	-
Bookkeeping fee - City of Osage	9,000	9,000
Other operating fees	294,883	353,464
	<u>\$ 5,773,807</u>	<u>\$ 5,547,782</u>

See notes to financial statements

Funds					
Gas		Non-Major Funds		Total	
2011	2010	2011	2010	2011	2010
\$ -	\$ -	\$ -	\$ -	\$ 124,279	\$ 122,198
1,123,699	1,163,396	1,734,865	1,746,596	4,386,484	4,397,131
622,896	689,245	-	-	4,399,605	4,219,553
-	-	-	-	41,016	45,673
428,462	418,014	-	-	428,462	418,014
9,000	9,000	-	-	18,000	18,000
14,213	9,889	3,887	5,476	312,983	368,829
<u>\$ 2,198,270</u>	<u>\$ 2,289,544</u>	<u>\$ 1,738,752</u>	<u>\$ 1,752,072</u>	<u>\$ 9,710,829</u>	<u>\$ 9,589,398</u>

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

**COMBINING SCHEDULES OF OPERATING EXPENSES
ENTERPRISE FUNDS**

AS OF DECEMBER 31:

	Enterprise	
	Light & Power	
	2011	2010
Operating expenses:		
Plant expenses:		
Supervision and labor	99,284	109,801
Payroll taxes	19,257	18,035
Fuel	34,305	27,257
Insurance	27,122	24,275
Supplies	8,800	5,971
Power purchased	2,837,229	2,623,912
Maintenance	8,357	29,035
Miscellaneous	4,979	4,030
Total plant expenses	3,039,333	2,842,316
Wind expenses:		
Supervision and labor	26,188	29,897
Insurance	6,517	14,360
Supplies	3,304	3,067
Maintenance	38,828	36,781
School and travel	-	23,092
Property lease	4,817	4,750
Total wind expenses	79,654	111,947
Distribution expenses:		
Supervision and labor	199,004	176,179
Payroll taxes	36,706	33,258
Insurance	43,374	44,191
Truck expense	24,536	22,356
Supplies	78,079	113,667
Maintenance	5,991	10,685
Natural gas purchases	-	-
Internet, cable and phone	-	-
Utilities	-	-
Miscellaneous	14,032	17,971
Total distribution expenses	401,722	418,307

See notes to financial statements

Funds					
Gas		Non-Major Funds		Total	
2011	2010	2011	2010	2011	2010
-	-	-	-	\$ 99,284	\$ 109,801
-	-	-	-	19,257	18,035
-	-	-	-	34,305	27,257
-	-	-	-	27,122	24,275
-	-	-	-	8,800	5,971
-	-	-	-	2,837,229	2,623,912
-	-	-	-	8,357	29,035
-	-	-	-	4,979	4,030
-	-	-	-	3,039,333	2,842,316
-	-	-	-	26,188	29,897
-	-	-	-	6,517	14,360
-	-	-	-	3,304	3,067
-	-	-	-	38,828	36,781
-	-	-	-	-	23,092
-	-	-	-	4,817	4,750
-	-	-	-	79,654	111,947
123,122	93,221	191,362	183,226	513,488	452,626
19,225	17,206	29,173	26,311	85,104	76,775
23,786	23,221	51,247	34,198	118,407	101,610
7,846	12,307	7,064	6,554	39,446	41,217
20,589	20,213	82,738	50,392	181,406	184,272
24,942	18,572	36,882	18,587	67,815	47,844
1,480,965	1,533,283	-	-	1,480,965	1,533,283
-	-	614,656	585,653	614,656	585,653
194	200	26,792	24,230	26,986	24,430
14,057	670	9,904	8,249	37,993	26,890
1,714,726	1,718,893	1,049,818	937,400	3,166,266	3,074,600

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

**COMBINING SCHEDULES OF OPERATING EXPENSES
ENTERPRISE FUNDS**

AS OF DECEMBER 31:

	Enterprise	
	Light & Power	
	2011	2010
Office and administrative expenses:		
Office salaries	184,087	218,066
Payroll taxes	22,324	23,593
Use tax	17,173	5,235
Property taxes	2,377	2,518
Trustee fees	1,625	1,280
Professional fees	9,475	5,917
Insurance	144,123	139,454
Global warming assessment	5,807	5,330
Office supplies and postage	14,702	19,551
Janitorial services	9,175	9,245
Office equipment	4,195	9,548
Dues	15,320	11,304
Contributions in lieu of taxes	52,908	57,590
Energy efficiency	10,528	9,645
Bad debts	10,637	6,216
Joint lease expense	-	-
Miscellaneous	14,941	32,609
Total office and administrative expenses	519,397	557,101
Other expenses:		
Depreciation	970,807	981,807
Amortization	21,507	15,881
Total other expenses	992,314	997,688
Total operating expenses	5,032,420	4,927,359

See notes to financial statements

Funds					
Gas		Non-Major Funds		Total	
2011	2010	2011	2010	2011	2010
142,540	152,933	154,495	132,777	481,122	503,776
38,102	33,203	12,090	10,772	72,516	67,568
3,271	1,893	3,661	1,344	24,105	8,472
-	-	5,345	13,425	7,722	15,943
1,625	1,280	3,250	2,560	6,500	5,120
7,391	7,729	14,976	6,345	31,842	19,991
60,097	44,797	54,755	47,364	258,975	231,615
2,800	3,009	-	-	8,607	8,339
13,446	18,183	10,890	10,992	39,038	48,726
9,175	9,245	-	-	18,350	18,490
2,351	5,190	1,510	2,072	8,056	16,810
6,843	8,163	4,208	3,258	26,371	22,725
103,444	92,535	2,479	2,479	158,831	152,604
10,954	10,994	-	-	21,482	20,639
2,839	1,477	1,360	1,232	14,836	8,925
-	-	143,523	143,632	143,523	143,632
9,493	11,037	58,237	64,044	82,671	107,690
414,371	401,668	470,779	442,296	1,404,547	1,401,065
70,827	69,056	24,646	29,047	1,066,280	1,079,910
-	-	-	-	21,507	15,881
70,827	69,056	24,646	29,047	1,087,787	1,095,791
2,199,924	2,189,617	1,545,243	1,408,743	8,777,587	8,525,719

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees of the
Osage Municipal Utilities:

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of Osage Municipal Utilities, a component unit of the City of Osage, Iowa as of and for the year ended December 31, 2011, which collectively comprise the Utilities' basic financial statements listed in the table of contents, and have issued our report thereon dated July 12, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Osage Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Osage Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Osage Municipal Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting we consider to be a material weakness and no deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Osage Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings as item II-A-11 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged

with governance. In Part II of the accompanying Schedule of Findings no items were noted to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Osage Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However we noted one instance of non-compliance which is described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Osage Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utilities' responses, we did not audit Osage Municipal Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Osage Municipal Utilities and other parties to whom Osage Municipal Utilities may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Osage Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Lou Ann Murphy & Company P.L.L.C.

Certified Public Accountant

Osage, Iowa

July 12, 2012

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE
SCHEDULE OF FINDINGS**

Part I: Summary of the Independent Auditor's Results

- a) Unqualified opinions were issued on the financial statements.
- b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- c) The audit did not disclose any non-compliance which is material to the financial statements.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE
SCHEDULE OF FINDINGS**

Part II: Findings related to the General Purpose Financial Statements

INTERNAL CONTROL DEFICIENCIES:

- II-A-11 Segregation of Duties –One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that each of the office personnel has control over several incompatible office and accounting functions.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Osage Municipal Utilities should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We have segregated the accounting duties, cash receipts, cash posting, cash deposits, and bank reconciliations to the fullest extent possible.

Conclusion – Response acknowledged. The Utilities should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE
SCHEDULE OF FINDINGS**

Part III: Other Findings Related to Statutory Reporting:

III-A-11 Certified Budget – Disbursements during the year ended December 31, 2011 did not exceed the budget but we did note that transfers were not budgeted for. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before transfers were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

III-B-11 Questionable Disbursements – We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

III-C-11 Travel Expense – No disbursements of the Utilities’ money for travel expense of spouses of Utilities’ officials or employees were noted.

III-D-11 Business Transaction – No business transactions between the Utilities and the Utilities’ officials or employees were noted.

III-E-11 Bond Coverage – Surety bond coverage of the Utilities’ officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-11 Board Minutes – No transactions were found that we believe should have been approved in the board minutes but were not.

III-G-11 Revenue Bonds – No violations of revenue bond resolution requirements were noted.

III-H-11 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities’ investment policy.

III-I-11 Telecommunication Services – No instances of noncompliance with Chapter 388.10 of the Code of Iowa were noted.